BUY

LARGE CAP

USD 54.40

Verizon Communications

VZ

Analyst Mtg Provides Comprehensive '01 Outlook – No Changes in our Forecast or Buy Rating

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- Verizon hosted an investor mtg to discuss its '01 business plan, reiterating its 8-10% rev growth target for '01 and GAAP EPS guidance of $3.13-$3.17 (plus $0.20/sh for g/w amort). We have made no change to our recently-reduced Buy rating, our 2001 rev growth fcst of 7.8% nor to our EPS of $3.10 in 2001 and $3.47 in 2002, lowered last week from $3.15 and $3.50.
- Mgmt addressed reg opportunities stemming from the new Admin ranging from phase out of recip comp to LD data exemptions to pending Sup Ct decision on UNE pricing. Co expects to add 1.5-1.7M net LD subs in '01 as more states are approved and 700K or 48% more DSL subs than in '00.
- Applying some math to the charts, over the next 5 yrs co expects to grow total revs 10% CAGR with data revs +29% (to 20% of revs, up from '00's 9%), wireless revs +20% (to 35% of revs from 22%), voice wireline -1% (shrinking from 59% to 35% of revs), int'l +16% and directory/info + 6%.
- Co announced extension of its LD infrastructure to Europe, Asia and Latam via fiber leases from FLAG, MFN, Genuity and others and installation of its own switching and trans equip—with the dual goals of providing global data connectivity to MNCs and overseas termination for voice calls comparable to other global carriers (T, WCOM, etc) and to save on transport costs. Over 5 yrs, capex will likely be $1B with $300M in transport savings and undisclosed rev gains. We view this move as very logical and positive as it leverages VZ's rapidly growing int'l traffic and improves its offerings to MNCs.

Price 10/27/00[1]	Target (12 Months)	Dividend	Yield	Mkt. Value (Millions)		52-Week Price Range
USD 54.40		$1.54	2.6%	$148,916.0		$69.50–28.75
	Annual EPS	Prev. EPS	Abs. P/E	Rel. P/E	EV/ EBITDA	EBITDA/ Share
12/01E	$3.10		17.5x	73%	7.0x	$10.73
12/00E	2.91		18.7	79	7.4	10.05
12/99A	2.84		19.2	81	7.8	9.50
	March	June	September	December		FY End
2000E	$0.69	$0.72	$0.73	$0.77		Dec. 31
1999E	$0.70	$0.67	$0.72	$0.75		
1998A	$0.63	$0.63	$0.70	$0.72		
ROIC —	Total Debt (06/00)		53,346.0 mil.	Book Value/Share (06/00)		$12.40
WACC —	Debt/Total Capital (06/00)		34%	Common Shares		2,756 mil.
EP Trend[2] —	Est. 5-Yr. EPS Growth		12%	Est. 5-Yr. Div. Growth		—

[1]On 2/06/00 DJIA closed at 10,957.4 and S&P 500 at 1,352.3.
[2]Economic profit trend.

Verizon is a full-service regional telephone company that is a national player in wireless, internet backbone, webhosting and ISP services.

The following summarizes what we learned at Verizon's Feb 7 investor meeting.

FINANCIAL FORECASTS

Table 1 summarizes the line by line guidances given and contrasts them with our old and new forecasts. We have increased our consolidated capex forecast slightly from $18.3B to $18.5B though we note that, excluding Vodafone's share of Verizon Wireless capex, Verizon's capex is increased from $16.7B to $16.9B.

Table 1
2001 Financial Forecasts

	2000	2001 Target
Revenues		
Telecom	4%	3-4%
Data	30%	30%
Wireless*	16%	N/A
Information Services	1%	4-6%
International	15%	15%
Consolidated	**7%**	**8-10%**
Expenses		
Telecom	4%	2%
Wireless*	15%	N/A
Information Services	1%	0%
International	17%	14%
Consolidated	8%	7%
Operating Income		
Telecom	2%	8-10%
Wireless*	27%	N/A
Information Services	3%	9-10%
International	23%	15%
Consolidated	8%	10-12%
Capital Expenditures		
Data	3.9	4.7
Voice	5.7	5.5
Wireless	4.3	4.7
Other	3.7	3.6
Total	**17.6**	**18.5**
Adjusted for Vodafone		

As shown in Table 2, Verizon has also made 5-year revenue mix projections, from which we have derived their assumed 5-year CAGRs on each business unit. According to our analysis, Verizon expects data to grow at a CAGR of 28.7%. Wireline telecom revenues, excluding data, are expected to remain relatively flat to slightly down over the next 5 years.

Table 2
2000-2005 Revenue CAGRs and Mix

	2000	2005	CAGR
Telecom	37,170	35,000	-1.2%
Wireless	13,860	35,000	20.4%
International	1,890	4,000	16.2%
Data	5,670	20,000	28.7%
Information Services	4,410	6,000	6.4%
Total Revenue*	63,000	100,000	9.7%
Revenue Mix			
Telecom	*59%*	*35%*	
Wireless	*22%*	*35%*	
International	*3%*	*4%*	
Data	*9%*	*20%*	
Information Services	*7%*	*6%*	

Source: Company reports and CSFB Telecom Research

MEETING HIGHLIGHTS

Telecom Business Unit

1. Targeting Flat Expense Growth

Expense growth for the telecom business unit will be contained via 1) overtime and headcount reductions (up to 5% of Verizon's workforce or 10,000 employees) plus 2) the realization of GTE merger synergies ($535M in 2000 and on track for $800M in 2001).

2. DSL Target of 1.2-1.3M Subscribers

Verizon is targeting 1.2-1.3M DSL subscribers in 2001 and expects to continue to install 3,500 customers per business day. By our calculation, a 3,500 daily install rate could cumulate to 1.4M subs by yearend '01, 15% more than the high end of Verizon's range of 660,000-760,000 net subscriber adds.

At the end of 2000, Verizon had successfully ramped its daily install rate to 3,500 per day from 1,050 and had installed a total of 540,000 subscribers. By the end of 1Q, Verizon will be in 1,900 central offices and will have DSL-enabled approximately 29 million or 46% of its total lines.

3. Long Distance Approvals On Their Way

Including GTE, Verizon can offer long distance service to 50% of its access lines or approximately 31.3M lines. By receiving long distance relief in Massachusetts, Pennsylvania and New Jersey, likely in 2001 and 2002, Verizon can expand this coverage to close to 85% or a total of 53 million lines. We note that this is only 10% less than needed to exercise its conversion option on Genuity.

We are very bullish about the prospects for approval of RBOC long distance applications as we expect a smoother process at the new, Republican-controlled, FCC. However, as with most regulatory dealings, negotiations often lead to small delays. Accordingly, we expect Verizon's application in Massachusetts to be approved on April 16 (after its second review by the FCC) and Verizon's applications in Pennsylvania and New Jersey to be approved in very late 2001 or early 2002 after also submitting two applications.

Attachment A

NY State, LD subscribership was flat in the GTE franchise areas in '00 despite GTE's benefiting from similar pre-established branding and billing relationships. The difference is that GTE has not leveraged the inbound channel and also had been running its LD effort through its "CLEC", in effect forcing customers to switch to the GTE CLEC both their local service from GTE's ILEC and their LD service from another LD customer. Not very successful if you ask us and certainly worthy of change given the empirical evidence that VZ's and SBC's use of the inbound channel and separate LD sub (but not bundled with local) have been extraordinarily successful. We've been watching this industry for almost 20 years and we have never seen consumer share gained at the rate of VZ in NY and SBC in TX (the former 20% share in 12 mos and the latter 18% share in 6 months).

Network Evolution

1. DSL Buildout

At the end of 2000, Verizon had DSL equipment in 1,850 of its central offices, a 60% average loop qualification rate and 28.6M qualified access lines. In 2001, Verizon's DSL strategy includes further penetration within these central offices (both consumer and small business DSL subscribers), thereby avoiding significant, incremental, DSL-related capital spending in 2001. Beginning in late 2001 and into 2002-2003, Verizon will build-out into secondary central offices, selected multi-dwelling units and DSL capable remote terminals.

2. Different Applications, Different Network Architectures

Verizon has been developing network capabilities that can address the variety of network technologies currently available in the marketplace. Included in its offerings and build-out plans are gigabit Ethernet, which offers a very low cost (approx 1/3 of the cost of SONET) transparent LAN to LAN service. According to the company, transparent LAN is a service with limited applications and with MPLS SONET costs will come downl, so the differential between gigE and SONET should narrow over time. It also noted that a drawback to gigabit Ethernet, at least at this time, is its inability to transport both voice and data.

By expanding gigE service across its footprint, Verizon can provide LAN to LAN, high speed connections for businesses effectively and in a cost-efficient manner. The company does not view gigE as a displacement technology. Instead, it expects it to co-exist with the older, SONET based architecture. For this reason, Verizon will both aggressively deploy gigE service while continuing to deploy SONET and ATM, due to the latter's necessity with certain applications.

We note that within Verizon's $3.7B of local access capital expenditures (which is expected to remain essentially flat from 2000 to 2001), the percentage of funds allocated to fiber optics and electronics increased from 30% in 2000 to 45% in 2001. We expect this trend to continue in 2002/3.

3. CLEC Competition Slowing

As we saw in 3Q and 4Q results, wholesale requests from CLECs for both colocation and trunking have slowed from the first half of 2000. For example, Verizon lost 29% fewer lines in 2H00 than in 1H00 as net CLEC line adds in Verizon's territory have gone from 677K in 1Q00 to 682K in 2Q and then dropped to 460K in 3Q and 502K in 4Q. We note that incumbent local phone companies generally recover, in wholesale lease payments from CLECs, roughly 50% of foregone retail revenues and thus the pain of share loss is far less than might otherwise meet the eye.

Regulatory Update Attachment A

Tom Tauke, Verizon's chief of Federal legislative affairs, summarized the regulatory and public policy items he anticipates will get a lot of attention this year:

1. **Legislation allowing RBOCs to provide LD data and broadband services even if 271 relief has not been received for voice services.** House Commerce Committee Chairman Billy Tauzin is a big supporter of this, as is top-ranking committee member (and Democrat) John Dingell. This bill got pretty far last year and now has more thrust behind it with a Republican-controlled FCC and Congress. Nevertheless, we don't put more than a 25% probability on such legislation occurring prior to most major states being approved for LD through the regular 271 process, ie end '02.

2. **Eliminating price regulation and unbundling requirements for broadband services.** This will be a big push by the ILEC community and has good chance of getting philosophical support from Michael Powell at the FCC and among Tauzin and Dingell and the rural Congressional members. Legislation or even action by the FCC is less certain, in our view.

3. **Supreme Court's review of TELRIC pricing of unbundled elements.** This case, likely to be heard in Oct and decided in the Spring or summer of '02, could overturn the methods used by the FCC in setting today's in-place unbundled element prices. The FCC used a forward looking costing methodology that assumed the RBOCs' networks were hypothetical and used "most efficient" network architecture (which of course yielded much lower costs and thus lower wholesale element prices charged to CLECs). The St Louis District Court overturned those rules, ordering the FCC to use forward looking methods but based on "actual" network architecture, not theoretical ones. This method would yield, by our estimates, prices that are roughly 30-50% higher than the FCC's methods and would enable the ILECs to raise the prices charged for unbundled elements leased by CLECs and LD companies. In fact, CLECs could end up with discounts vs retail prices of just 25-35%, vs the approx 45-55% now received. We think there is a 70% chance the Supreme Court will affirm the lower court and thereby award the ILECs a fairly big win, bigger than we had originally estimated in Jan '00 when the St Louis court ruled.

4. **Maintaining the FCC's limitation on LD companies using unbundled EELs (extended loops) to arbitrage higher prices for special access lines used for LD traffic.** The FCC today prohibits LD companies from canceling special access lines and ordering EELs for carrying LD traffic, but enforcement is difficult and thus this issue will be brought forward by Verizon and others.

5. **Reciprocal compensation:** It appears the FCC is moving forward to vote, perhaps in March, on a phase-down plan for internet-related reciprocal comp. Verizon paid CLECs $1B in '00, growing at roughly a 30% rate but the FCC's plan will phase it down over the next 3 years—saving RBOCs lots of dollars. The issue is how to get that plan voted and implemented soon, so the phase-down can get started. Otherwise, Verizon's liability could rise even higher than the '00 level. We believe the company has budgeted for about a 20% increase in '01. We have no doubt Tauzin, Dingell and most likely Powell see these payments as unintended arbitrage and thus are big supporters of getting rid of them and thus we fully expect the FCC to vote in favor of the phasedown plan no later than June of this year.

6. **More LD entry approvals (271s):** In our view, the MA application is likely to be approved by the FCC by the April 16 deadline. Further, in our view, PA

and NJ will likely be filed during the 1st half of this year with a 50% chance of approval on first application and a much higher 90% probability on second round – putting actual LD entry in those 2 states in 1Q02, 3-5 months later than the company's targeted 2H01. We simply are trying to factor in the normal bureaucratic processes of state regulators and even the Republican led FCC. Overall, however, we believe the LD approval process has and will continue to get smoother and easier for the RBOCs now that they know the template and that the FCC has set precedents (in OK and KS) for multistate reviews and use of other states' OSS audits when the systems are the same.

Global Solutions

In order to win more enterprise customer business, Verizon unveiled plans to extend its connectivity to Europe, Asia and Latin America. The cost of the project will amount to $1B (built into its 2001 and 2002 budget) and is expected to reap at least $300M of savings in network transport costs over the same 5 years. We view this move as a logical next step in Verizon's transition to a full (including LD voice and data) service provider. Verizon will leverage its relationships with FLAG for undersea and some intra-European transport, Genuity for additional products and services and MFN for local connectivity. We note that revenues generated for MFN are not incremental to Verizon's standing agreement to spend $500M over 5 years (beginning in 2000).

Challenges for Verizon will include building (or arranging) of data nodes around the globe and winning the business of multinational corporations. We believe that Verizon is capable of achieving approximately 5% market share of the overall business long distance market which, along with recaptured or saved local share, will translate into the creation of additional value that is not currently priced into Verizon's shares.

Wireless

During 2000, Verizon Wireless added 3.7 million net customer adds for a total of 27.5 million subscribers, 750,000 of which subscribe to Verizon Wireless' data offering.

Most recently, Verizon Wireless was a participant in the Nextwave spectrum reauctions, walking away with 167 million total POPs won (157 million overlay and 10 million fill-in) and 113 licenses. The total cost of the licenses was $8.9B, half of which was spent on acquiring two 10 MHz spectrum blocks in the lucrative New York market (high average household income and dense population). Verizon also acquired spectrum in Los Angeles, Chicago, San Francisco and Philadelphia. In total, including the two New York licenses, Verizon paid $5.23 per MHz per POP – higher than the total auction average of $3.74. However, after excluding New York, which averaged $10.85 per MHz per POP, Verizon spent $3.60 per MHz per POP – just below the auction average.

Wireless CEO Denny Strigl made several comments of note:

1. Mr. Strigl commented that management would like to IPO by the summer.
2. The proceeds of the IPO will be used to pay for the $8.8B spent on the wireless spectrum.
3. By 2005, Verizon Wireless expects 25% of its service revenues to be derived from data (from less than 5% in 2000).
4. Verizon Wireless will grow revenues at approximately 20% over the next 5 years (see Table 1 and company presentation.)

INVESTMENT CONCLUSION

We continue to believe that Verizon is endowed with some of the best assets in the industry, the lowest valuation of the remaining 3 RBOCs and worthy of inclusion in an overweighted, defensive portfolio of local phone company (RBOCs/ILECs) stocks. However, we recently reduced our rating on Verizon shares from Strong Buy to Buy, based on some near term concerns regarding cost trends and revenue growth rates; as well as some longer term concerns regarding the ultimate cost of rolling out recently-won wireless spectrum as well as recent forecast reductions at Genuity, an important growth longterm enhancer for Verizon. (See our Feb 2 report entitled, "**Verizon, Downgrading from Strong Buy to Buy on Worrying Signs in 4Q; Lowering '01 EPS to $3.10 from $3.15.**" Also see Tim Newington's Jan 31 report "**Genuity Reports Disappointing Fourth Quarter Results, Downgrading to Hold from Buy**").

CLEC Workshop: Potential DSL at the RT

1095 Avenue of the Americas
February 6, 2001

Wholesale Markets

verizon

Proposed PARTS Schedule

- Verizon decision to introduce PARTS.
- Technical trial three months after decision
- Operational trial nine months after decision
- Service available eleven months after decision

This is not an offering by Verizon.
Presentation is for discussion purposes only.

Investment Community Meeting

February 7, 2001

Network Evolution

Paul Lacouture

February 7, 2001

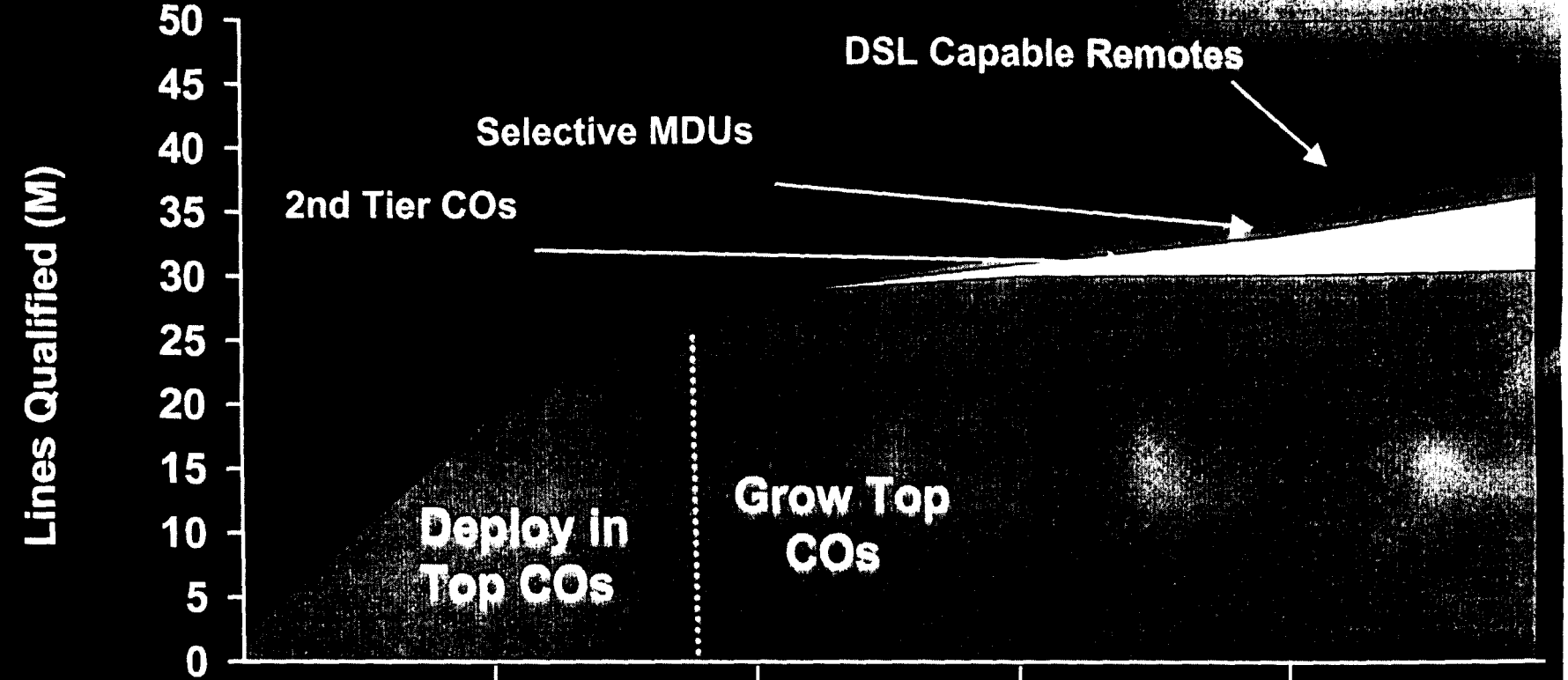
Local Access

verizon

2001 Capital Expenditures	Current Expenditures	Early Deployment	Evaluation Trial
$3.7B	Structures Copper DSL / CO (Fiber) DLC	DSL Enhancements DSL at Remote Terminal	Voice & Video DSL Fiber to the Home BB Fixed Wireless Business Passive Optical Networks Integrated Access Devices

DSL Deployment Strategy

verizon



	1999	2000	2001
Capital Expenditures	$ 166M	$ 409M	$ 480M
Lines Qualified	19.8M	28.6M	30.0M
Units In Service	86.7K	540K	1.2M-1.3M

Revenue and Earnings - Wholesale

verizon

UNE Policy

- Eliminate TELRIC Pricing for UNEs
  - Supreme Court Case
- Reduce UNE Requirements
  - UNE Remand Proceeding

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February 14, 2001

Ms. Meghan Henning
Legal Assistant
Covad Communications
600 14th St. NW, Suite 750
Washington, DC 20005

Dear Ms. Henning:

RE: Line Splitting Policy

Set forth below is the policy of the Verizon Operating Telephone Companies with respect to line splitting arrangements. This policy, which will be reflected in all future draft interconnection agreements issued by the Verizon Wholesale Markets Organization, is to be considered immediately in effect and binding upon the Verizon Operating Telephone Companies. Competitive Local Exchange Carriers that wish to have this policy statement included in their existing interconnection agreements or in draft agreements currently under negotiation should contact their assigned Account Manager or Contract Negotiator, who will ensure that an appropriate document reflecting this policy is forwarded for your review and signature.

STATEMENT OF POLICY

CLECs may provide integrated voice and data services over the same Loop by engaging in "line splitting" as set forth in paragraph 18 of the FCC's Line Sharing Reconsideration Order (CC Dkt. Nos. 98-147, 96-98), released January 19, 2001. Any line splitting between two CLECs shall be accomplished by prior negotiated arrangement between those CLECs. To achieve a line splitting capability, CLECs may utilize existing supporting OSS to order and combine in a line splitting configuration an unbundled xDSL capable Loop terminated to a collocated splitter and DSLAM equipment provided by a participating CLEC, unbundled switching combined with shared transport, collocator-to-collocator connections, and available cross-connects, under the terms and conditions set forth in their Interconnection Agreement(s). The participating CLECs shall provide any splitters used in a line splitting configuration. CLECs seeking to migrate existing UNE platform configurations to a line splitting configuration using the same unbundled elements utilized in the pre-existing platform arrangement may do so consistent with such implementation schedules, terms, conditions and guidelines as are agreed upon for such migrations in the ongoing DSL Collaborative in the State of New York, NY PSC Case 00-C-0127, allowing for local jurisdictional and OSS differences.

If you have any questions regarding this letter, please contact your account manager.

Sincerely,

Thomas Dreyer

Oxman, Jason

From: barbara.a.banta-lent@verizon.com
Sent: Thursday, February 22, 2001 12:35 PM
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Subject: Trial COs

PROPOSED LINESPLITTING CO.doc

As discussed at yesterday's (2/21) Line Splitting Pilot Workshop, please

find attached the list of proposed Line Splitting CO's for the trial. As
Dave Kelly stated yesterday, he is looking for a response by Monday, February 26th as to whether the proposal is acceptable. Please note that
Dave's e-mail name changed to d.j.kelly@verizon.com.

(See attached file: PROPOSED LINESPLITTING CO.doc)

PROPOSED LINESPLITTING CO's
FEBRUARY 21, 2001

CLLI Code	Location	Availability
NYCMNY79	Manhattan	June, 01
NYCMNY56	Manhattan	June, 01
NYCMNY73	Manhattan	June, 01
NYCMNY30	Manhattan	June, 01
NYCKNY77	Brooklyn	July, 01
NYCKNYAR	Brooklyn	July, 01
NYCMNY13	Manhattan	July, 01
NYCQNYBA	Bayside	July, 01
TKHONYTU	Tuckahoe	July, 01
SCDLNYSR	Scarsdale	July, 01
NYCMNYMN	Manhattan	August, 01
NYCMNY50	Manhattan	August, 01
NYCKNYBR	Bridge St	August, 01
NYCQNYFH	Forest Hills	August, 01
NYCQNYOP	Ozone Park	August, 01
NYCQNYHS	Hollis/Queens	August, 01
YNKRNYYN	Yonkers	September, 01
NYCQNYNW	Newtown	September, 01
NYCQNYAS	Astoria	September, 01

COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

Investigation by the Department on its own motion as to the propriety of the rates and charges set forth in the tariff filings by New England Telephone and Telegraph Company d/b/a/ Verizon	DTE 98-57

PETITION OF AT&T COMMUNICATIONS OF NEW ENGLAND, INC. AND COVAD COMMUNICATIONS COMPANY TO INVESTIGATE CERTAIN PROVISIONS OF JANUARY 12, 2001 TARIFF FILING AND SUSPEND AND INVESTIGATE CERTAIN OTHER PROVISIONS

Introduction

On January 12, 2001, New England Telephone and Telegraph Company, d/b/a Verizon ("Verizon") filed with the Department of Telecommunications and Energy ("Department" or "DTE") proposed tariff revisions in *inter alia* Part E of M.D.T.E. No. 17 ("January 12 Tariff Filing"). In the absence of Department action, the tariff revisions will become effective on February 11, 2001. On January 24, 2001, by hearing officer memorandum, the Department requested comments regarding the January 12 Tariff Filing. AT&T and Covad hereby file these comments and request that certain of the proposed revisions be suspended and investigated, and that other revisions be allowed to go into effect subject to true-up after investigation.

The January 12 Tariff Filing

1. *Proposed Changes Regarding Charges for DC Power*

In its January 12 Tariff Filing, Verizon proposed several specific modifications and additions to its Collocation tariff relating to charges for DC power.

One proposed change appears in Part E, Section 2.2.1.B., Verizon proposes to modify the existing language for Physical Collocation by adding the word "load" as highlighted in the bolded language below:

> In addition to the floor space, the Telephone Company will provide – 48V DC power and AC power, battery and generator back-up power, AC power convenience outlets, heat, air conditioning and other environmental support to the CLEC equipment in the same manner that it provides such support items to its own equipment within that central office. Standard – 48V DC power shall be provided per **load** amp per feed. If requests for power or environmental support exceed the existing central office capacity, any extraordinary costs to provide that expanded capacity will be borne by the CLEC.

Verizon provides no explanation as to why the addition of the word "load" is necessary, or what if any effect it has on the DC power service that Verizon provides.

Verizon also proposes to modify the way it applies the charges for the DC power service that it provides in the Collocation tariff.. Section 2.6.3.C of the tariff currently states:

> DC Power — Applies for the provision of – 48V DC protected power required by the CLEC equipment in the multiplexing node. The power is assessed per fused amp provided, and will be based on the total power provisioned to the multiplexing node (greater than 60 amps, or less than or equal to 60 amps). The rate applies according to geographic designations (metro, urban, suburban or rural).

Verizon's January 12 Filing would modify Section 2.6.3.C to read as follows:

> DC Power — Applies for the provision of – 48V DC protected power required by the CLEC equipment in the multiplexing node. The power is assessed per load amp, per feed requested. The rate applies according to geographic designations (metro, urban, suburban or rural).

Verizon provides no explanation what change in rate application, if any, is intended by the proposed language change.[1] The absence of an explanation is troubling because a change in rate

[1] Also without explanation, Verizon proposes similar modifications for its Virtual Collocation tariff (*see*, Part E, Section 3.5.9A), its Secured Collocation Open Physical Environment ("SCOPE") tariff (*see*, Section 6.2.1.B.1), its Cageless Collocation Open Environment ("CCOE") tariff (*see*, Section 9.2.1.E), and its Collocation at Remote Terminal Equipment Enclosures ("CRTEE") (*see*, Section 11.2.2.B).

application, without a change in rates, would change the revenues that Verizon will receive for a service for which no cost change has been identified.

*2. **Proposed Addition of Random Audits and Reporting Requirements***

In addition to the foregoing changes in billing or charging practices regarding DC power, Verizon also proposes to add new provisions that give it the right to perform random inspections of actual power load, to charge for its costs of conducting such inspections, to charge punitive penalties for violation of the related tariff provisions and to require CLECs to submit notarized certifications of usage annually. These provisions are set forth in Sections 2.2.3.E. and 2.2.3.F. of Part E in Tariff No. 17, which state as follows:

> E. The Telephone Company reserves the right to perform random inspections to verify the actual power load being drawn by collocation arrangements. A CLEC found to be drawing more power than ordered at a site is in violation of the tariff and the following penalties will apply.
>
> 1. The CLEC will be assessed a penalty fee equal to two times the total amps fused to the collocation arrangement for the time period from when the arrangement was installed (or converted to the power load billing method) to the date that the inspection revealed a violation. The penalty fee is in addition to the monthly rate applicable for DC power.
>
> 2 On the date that the inspection revealed a violation, the Telephone Company will convert the CLEC's power back to the billing method based on total amps fused to the collocation arrangement.
>
> 3. The Telephone Company reserves the right to assess time and material charges associated with the costs of performing this inspection and for the inspection and verification of all collocation arrangements in Massachusetts.
>
> F. Annually, each CLEC must submit a notarized statement in writing that it is not exceeding the total requested load as ordered on the collocation application. This attestation must be provided on an arrangement-by-arrangement basis and must be received by the Telephone Company no later than the last day of December for each year the arrangement is in service.

As AT&T discusses further below, these new inspection and auditing procedures provide Verizon with a tool to harass and impose anticompetitve costs on CLECs. At a minimum, the Department should suspend and investigate these provisions given their clear potential for harm and the lack of any justification provided by Verizon.

Technical Background Regarding Provision Of DC Power To CLEC Collocators

1. Power Requirements

CLECs that collocate equipment in Verizon's central offices in Massachusetts do so pursuant to the terms of Part E, Sections 1, 2, 3, 6, and 9 of Tariff 17. Pursuant to the terms of that Tariff, CLECs order and Verizon provides –48V DC power that is used to operate multiplexers, digital subscriber line access multiplexers ("DSLAMS", which are used to provide xDSL services), and other telecommunications equipment.

CLECs order DC power for their collocated equipment based on the highest amount of amperage that such equipment can drain under the most adverse conditions.[2] Power "drain" is the amount of DC power that a piece of equipment actually can draw, or use. Power drainage is measured in amps and is ordered from Verizon on this "drained amp" basis. Verizon's practice for itself, like its obligation to CLECs, therefore, is to have available sufficient capacity to power telecommunications' equipment, both its own and collocators' equipment, when such equipment is running at its highest designed level.

2. Backup Feeds

Regardless of the amount of drained amps CLECs order (and Verizon is obliged to have sufficient capacity to provide), many CLECs request two "feeds", which are the electric conduits

[2] Power "drain" is the amount of power that a piece of equipment actually can draw, or use.

that carry the DC power to the CLEC equipment, CLECs order two fees in order to have a backup in case one goes down. Each feed alone is adequate to carry the maximum power requirements of the collocated equipment. Indeed, Verizon's collocation application requires CLECs to order power in increments of two feeds or sub-feeds (which it refers to as an "A & B feed pair"). *See,* Verizon Collocation Application, Section IV. <http://www.bell-atl.com/wholesale/html/clec_01/01_17.htm> Thus, in the above example, if a CLEC orders 50 amps of drained power to serve a piece of collocated equipment, it would order two power sub-feeds each with the ability to provide 50 amps at one time. This practice ensures that, should one of the feeds fail, the other feed can carry all the power needed to keep the equipment in operation and the service uninterrupted; the benefit is clear. Under ordinary circumstances, the two feeds each carry only half the actual power used.

The capacity of the feeds does not affect the amount of power drained. For example, a CLEC with equipment that draws 50 amps of power does not increase its power draw merely by having two 50 amp feed each delivering 25 amps of power.

3. Fuse Protection

Verizon protects both its own and CLEC equipment, as well as the DC power cabling, by installing a fuse on each feed, typically in 10 amp increments. Established engineering principles call for fusing at some multiple of the expected power drain. Verizon's collocation application states that a collocator's collocation equipment is fused at a rate between 1.25 and 1.5 times the amount of power ordered by collocators (although Verizon almost always uses the 1.5 multiple).

The logic of this practice is familiar to anyone with a home fuse box. If fuses were set at the level of the actual anticipated power drain, they would constantly "pop," disrupting the

circuit continually. Moreover, since the purpose of the fuse is to protect equipment and cabling against sudden, unexpected short-term power surges, it would make little sense to set the capacity of the fuse at the same level as the power regularly to be drawn. Indeed, some engineers believe that fuses are unreliable (i.e., susceptible to being triggered without warning) whenever the power load exceeds 66 percent of a fuse's capacity. Thus, fuses are never selected at the expected drain rate, and, in any event, the size of the fuse does not increase the amount of power that the equipment can draw.

If a CLEC orders 50 amps of power, Verizon typically installs an 80 amp fuse (1.5 times the 50 requested amps, which is rounded up to the next ten amps because fuses come in increments of ten amps). But this has no effect on the amount of power the CLEC has ordered, the amount of power Verizon is obligated to provide or the amount of power the CLEC's equipment actually can or will use.

Comments and Argument

I. THE DEPARTMENT SHOULD INVESTIGATE THE SIGNIFICANCE AND MEANING OF VERIZON'S INSERTION OF THE WORD "LOAD" INTO SECTION 2.2.1.B.

Existing Section 2.2.1.B provides that "Standard – 48V DC power shall be provided per amp per feed." The new Section 2.2.1.B would provide that "Standard – 48V DC power shall be provided per *load* amp per feed." Since the power, or amperage, that equipment in a collocation cage draws (or "drains") is typically referred to as the equipment's "load" and since the term "load amp" is not a standard industry term, it is not obvious what difference Verizon intends between providing power for equipment on a "per amp" basis and on a "per load amp" basis. Although Verizon has provided no explanation of the purpose or intent of the proposed tariff changes, AT&T suspects that Verizon is seeking to justify by this change excessive charges it has *until now* imposed for DC power. Specifically, AT&T has recently learned that Verizon has

not been billing DC power on the basis of the load that the CLEC's equipment in the collocation arrangement can drain. Rather, Verizon has been billing CLECs on the basis of the size of the *fuse* that Verizon chooses to install on the circuit, or "feed," that delivers the power. Because the size of the fuse must be at least 25 percent and often 50 percent larger than the level of power the equipment can drain, the existing power rate has been applied to a higher number of amps than could be drawn by the CLEC, producing substantial overcharges. While now Verizon seemingly wants to appear to charge on the basis of the amount of power the CLEC's equipment is capable of draining, Verizon's addition of the unnecessary word "load" appears to be a surreptitious attempt to justify its prior interpretation of the tariff and protect its prior overcharges.[3]

AT&T does not oppose allowing the proposed change to Section 2.2.1.B to go into effect on February 11, 2001, pending investigation to confirm that AT&T's understanding of the purpose of the proposed change is correct[4] and subject to true-up as necessary to ensure that Verizon's billing practices henceforth conform with Department requirements. AT&T's lack of opposition, however, is without prejudice to its position that, given the way that the rate was developed, the rate should have been applied, from the beginning, against the amps that the equipment can drain and not against the size of the fuse.[5]

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[3] Although Verizon had previously used the term "per fused amp" in Section 2.6.3.C, it did not appear to be the basis of Verizon's charging, since the rate in Part M, Section 5.2 is on a "per amp" basis. Moreover, it was not clear that the term "per fused amp" had any substantive significance. "Per fused amp" is not an industry term of art and, on its face, might mean nothing different from "per amp." Thus, for example, if AT&T orders 40 amps of power and Verizon fuses that order at 60 amps, the equipment amps that have been fused are still 40; they just have fuses with a 20 amp protective zone.

[4] AT&T's interpretation is supported by other modifications that Verizon is proposing in the January 12 Tariff Filing. In particular, Verizon is proposing to eliminate the term "fused" from the phrase "per fused amp" in Section 2.6.3.C.

[5] With respect to past overcharges, AT&T will soon file a complaint with the Department seeking their refund, with interest.

II. THE DEPARTMENT SHOULD SUSPEND AND INVESTIGATE VERIZON'S PROPOSED CHANGE TO ITS METHOD OF RATE APPLICATION (SECTION 2.6.3.C), IN PARTICULAR ITS ELIMINATION OF THE WORDS "WILL BE BASED ON THE TOTAL POWER PROVISIONED TO THE MULTIPLEXING NODE."

Verizon has proposed several different changes in Section 2.6.3.C, which include both additions and deletions. A summary of those changes is set forth in the red-lined text below:

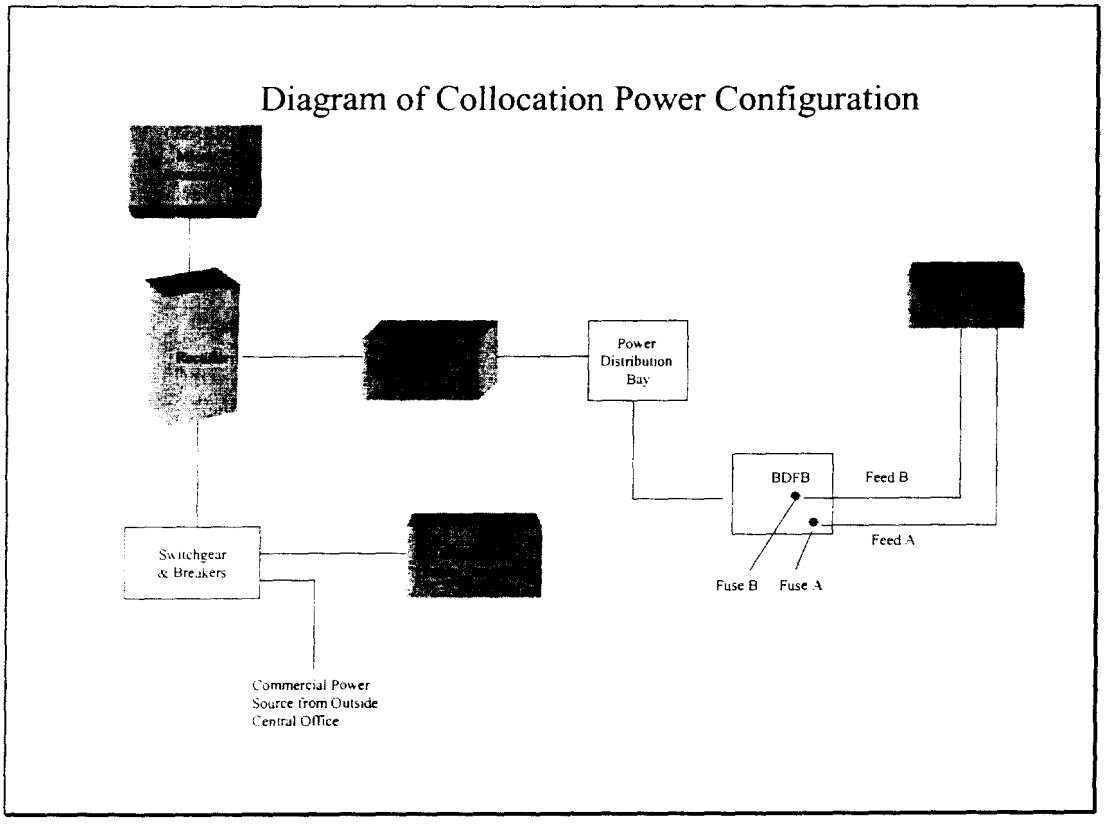
> DC Power — Applies for the provision of – 48V DC protected power required by the CLEC equipment in the multiplexing node. The power is assessed per ~~fused amp provided, and will be based on the total power provisioned to the multiplexing node (greater than 60 amps, or less than or equal to 60 amps).~~ **load amp, per feed requested**. The rate applies according to geographic designations (metro, urban, suburban or rural).

In addition to substituting the term "load" for the term "fused," Verizon makes two other changes to this provision. Verizon adds the term "per feed requested" which adds little or no new meaning to the provision, at least in the absence of Verizon's other change. Verizon's other change makes clear what Verizon is intending to accomplish. Verizon proposes to eliminate the language that would base power charges on "the total power provisioned to the multiplexing node."

Apparently, Verizon does not want to limit its power charges to the amount of power provisioned, but seeks to charge for power it does not provision. The addition of the term "per feed" in the context of the deletion of the above quoted language suggests that Verizon wants to be able to charge, not only for the amount of power that the requesting CLEC ordered and its equipment can use, but rather for a multiple of that number, based on the number of feeds running between the power source that Verizon provisions for the CLEC and the CLEC's equipment. This would be improper. However, AT&T and Covad have recently discovered that Verizon has already been applying this method of charging for DC power, even without

language that would authorize it, and AT&T and Covad will soon file a complaint with the Department for a refund.

Such a billing practice would over-recover Verizon's power costs, given that the power rate was developed on the basis of the amount of power provisioned.[6] When CLECs order a second, backup feed, they are not doubling the amount of power that Verizon is required to provision. The following is a diagram of a typical power configuration arrangement serving a CLEC collocation site.



[6] By the amount of power provisioned, AT&T recognizes that when a CLEC orders 50 amps Verizon is obligated to provide, and the CLEC is obligated to pay for 50 amps, whether the CLEC's peak use actually reaches 50 amps or not.

The diagram illustrates that the primary feed (labeled "Feed A") and the back-up feed (labeled "Feed B") are redundant only starting at the Battery Distribution Fuse Bay (labeled "BDFB"). There is no redundancy for any of the equipment that appears closer to the power source (labeled as "Commercial Power Source"), which accounts for the majority of the power costs.[7] In fact, there is back-up power provided via an emergency generator even if the collocator orders only one feed, and Verizon's rates already include the cost of that generator.

The point of having a back-up feed in such a configuration is merely to ensure the continuous flow of power if a fuse blows at the Battery Distribution Fuse Bay. Plainly, collocators should not pay double the recurring *power charges* (though they should pay the relatively small costs for a second fuse and cable) simply because they have an additional feed cable travelling from the Battery Distribution Fuse Bay to their collocation arrangement (and consequently make *no* additional use of the generation and conditioning elements in the configuration, such as the power plant distribution bay, the emergency generator, the rectifier, the microprocessor, or the switchgear). For these reasons, Verizon's proposal to charge double for DC power in this configuration is not based upon the cost of providing the service, as the Telecommunications Act of 1996 requires. *See* 47 U.S.C. § 252(d)(1)(A).

For the foregoing reasons, AT&T and Covad request that the Department suspend, investigate and deny Verizon's proposal to charge multiple times for the same power, based on the number of feeds.[8] AT&T and Covad make the request that the Department deny this change

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[7] Verizon may argue that when a CLEC orders two feeds it is ordering twice the power capacity and therefore Verizon must stand ready to provide twice the power. If that is Verizon's concern, it is easily obviated. Verizon can change its application to permit CLECs to order maximum power capacity separately from the number of feeds.

[8] In reviewing the January 12 Tariff Filing, AT&T discovered that Verizon had previously included the term "per feed" in tariff sections relating to the provision of DC power for its Virtual Collocation tariff (*see*, Part E,

to the tariff without prejudice to their position that Verizon has already been illegally charging CLECs more than the cost of power and must refund CLECs such overcharges, with interest.

III. THE DEPARTMENT SHOULD SUSPEND AND INVESTIGATE VERIZON'S PROPOSED ADDITION OF THE INSPECTION, AUDITING AND CERTIFICATION PROVISIONS IN SECTIONS 2.2.3.E. AND 2.2.3.F.

In its January 12 Tariff Filing, Verizon also proposes to add new DC power provisions that give it the right to perform random inspections of actual power load, to charge for its purported costs of conducting such unwarranted inspections, to charge punitive penalties for violation of the related tariff provisions and to require CLECs to submit burdensome notarized certifications of usage annually. These provisions are set forth in Sections 2.2.3.E. and 2.2.3.F. of Part E in Tariff No. 17. Verizon has provided no justification for the imposition of these onerous and costly compliance requirements. The Department should suspend for investigation and, in the absence of sufficient justification from Verizon, deny these provisions.

Given the opportunity that these audit and inspection provisions provide to Verizon for harassing and imposing costs on CLECs, the Department should subject any purported justification that Verizon may offer to considerable scrutiny. Verizon will almost certainly argue that it is subject to the risk that unscrupulous CLECs will install equipment that exceeds the amount of power ordered. Verizon may even produce anecdotal evidence to that effect. Such evidence, even if true, however, does not automatically entitle Verizon to weapons that it can use

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(Continued...)

Section 3.5.9A), its Secured Collocation Open Physical Environment ("SCOPE") tariff (*see*, Section 6.2.1.B.1), its Cageless Collocation Open Environment ("CCOE") tariff (*see*, Section 9.2.1.E), and its Collocation at Remote Terminal Equipment Enclosures ("CRTEE") (*see*, Section 11.2.2.B). Given that Verizon's meaning of the ambiguous term "per feed" is now understood in light of the Verizon's proposal to remove the words "will be based on the total power provisioned to the multiplexing node" from Section 2.6.3.C, the Department should order Verizon to remove the "per feed" language from the other collocation tariffs.

against compliant CLECs (*e.g.*, random inspections) that run up costs of such CLECs in serving their customers. Nor would such evidence automatically entitle Verizon to such punitive penalty amounts for tariff violations that it forces CLECs to order more power than they need in order to avoid even the remote risk of financially prohibitive penalties. Any investigation of a purported justification offered by Verizon should weigh the benefits against the costs of Verizon's punitive and burdensome compliance provisions.

The Department should not give Verizon the opportunity to impose anticompetitive burdens on its competitors without a well supported justification. In the absence of a compelling justification, the Department should deny Verizon's proposal to add the costly and burdensome auditing and certification requirements in Sections 2.2.3.E. and 2.2.3.F.

Conclusion

For the foregoing reasons, AT&T and Covad request that certain proposed tariff revisions be suspended and investigated and others be allowed to go into effect pending investigation and true-up, as set forth above.

Respectfully submitted,

AT&T COMMUNICATIONS OF NEW ENGLAND, INC.

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COVAD COMMUNICATIONS COMPANY

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February 1, 2001

Oxman, Jason

Subject: FW: D.T.E. 98-57 Phase I - Stamp Approval of Jan. 12 Tariff Filing

-----Original Message-----
From: Chin,Tina [mailto:Tina.Chin@DPU.state.ma.us]
Sent: Friday, February 16, 2001 11:29 AM
To: 'Bruce.P.Beausejour@verizon.com'; 'Barbara.A.Sousa@verizon.com'; 'Keefe.B.Clemons@verizon.com'; 'saugust@kwplaw.com'; 'George.Dean@ago.state.ma.us'; 'karlen.reed@ago.state.ma.us'; 'jgruber@palmerdodge.com'; 'jjones@palmerdodge.com'; 'ksalinger@palmerdodge.com'; 'pjacobs@lga.att.com'; 'baerenrodt@lga.att.com'; Davis, Susan; Henning, Meghan; Petrilla, Antony; 'wrooney@gnaps.com'; 'sparker@broadband.att.com'; 'jgwhite@broadband.att.com'; 'gharris@northpointcom.com'; 'rmrindler@swidlaw.com'; 'elise@technologylaw.com'; 'kristin@technologylaw.com'; 'kscardino@rhythms.net'; 'dougdb@rnktel.com'; 'christopher.d.moore@mail.sprint.com'; 'amandl@earthlink.net'; 'Christopher.McDonald@wcom.com'; 'ccarney.johnson@wcom.com'; 'cfkerry@mintz.com'; 'lkorner@nwp.com'; 'ekrathwohl@richmaylaw.com'; 'rmblau@swidlaw.com'; 'ssawyer@conversent.com'; 'ddavis@z-tel.com'; 'esoriano@kelleydrye.com'; 'jcanis@kelleydrye.com'; 'ashton.johnston@piperrudnick.com'; 'tlyle@vitts.com'; 'mhazzard@kelleydrye.com'; 'speverett@mintz.com'; 'ssamuels@mintz.com'; 'mdangelo@nextlink.net'; 'rjoyce@shb.com'
Cc: 'Mike.Isenberg@state.ma.us'; 'Berhane.Adhanom@state.ma.us'; 'Jee.Soo.Hong@state.ma.us'; 'April.Mulqueen@state.ma.us'; 'Janice.McCoy@state.ma.us'; 'Mary.Cottrell@state.ma.us'
Subject: D.T.E. 98-57 Phase I - Stamp Approval of Jan. 12 Tariff Filing

SENT VIA FIRST CLASS MAIL AND E-MAIL

MEMORANDUM

TO: Service List, D.T.E. 98-57 Phase I

FROM: Tina W. Chin, Hearing Officer

DATE: February 16, 2001

RE: **Stamp-Approval of Verizon's January 12, 2001 Tariff Filing**

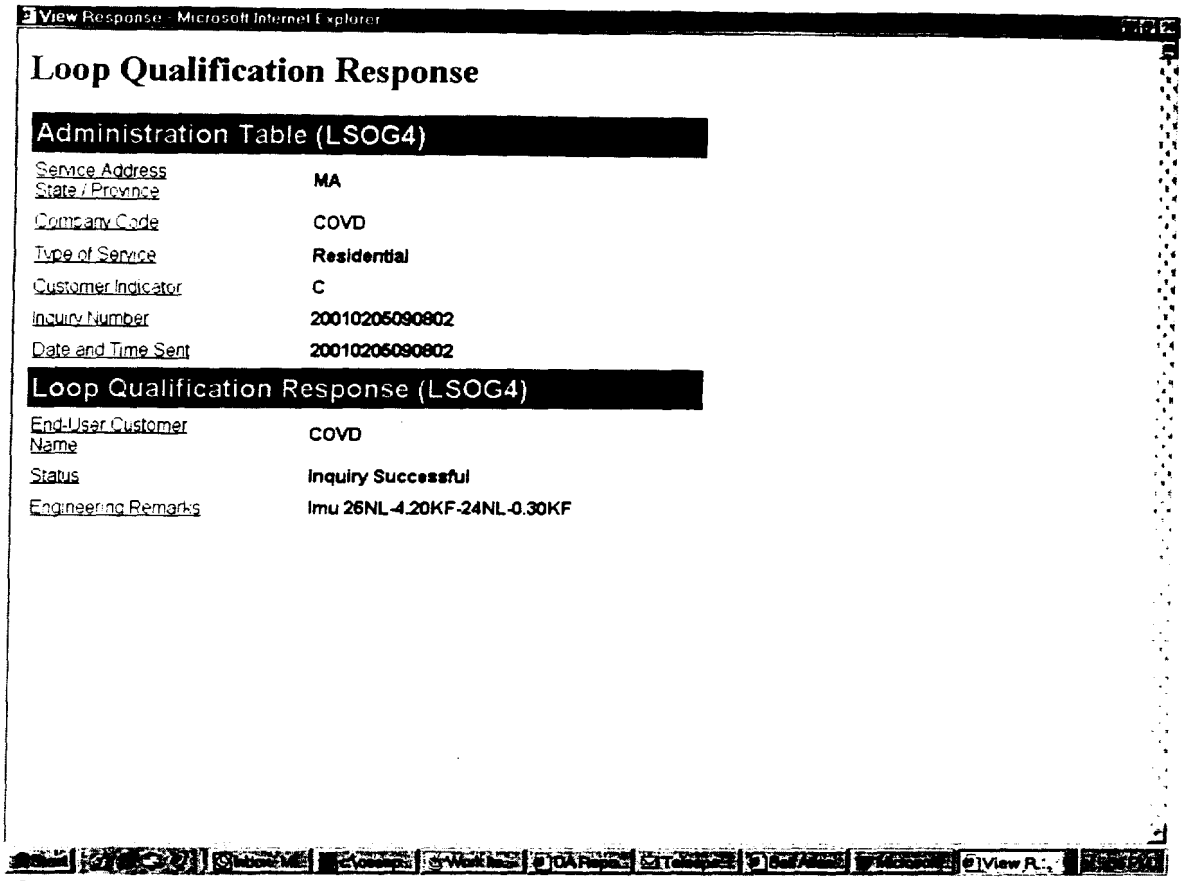
CC: Mary Cottrell, Secretary

On January 12, 2001, Verizon New England, Inc. d/b/a Verizon Massachusetts ("Verizon") filed with the Department of Telecommunications and Energy ("Department") tariff material consisting of revisions to Tariff No. 17. The January 12th filing proposed rate reductions for meet point interconnection arrangements, reciprocal compensation, and collocation power charges. In accordance with the

January 24, 2001 procedural memorandum, AT&T Communications of New England, Inc. ("AT&T") and Covad Communications Company ("Covad"), jointly, and Conversent Communications of Massachusetts, LLC ("Conversent"), individually, filed comments on the January 12th filing. Specifically, AT&T and Covad filed a joint Petition to investigate certain provisions of the January 12th filing, and to suspend and investigate certain other provisions ("Petition"), and both the Petition and Conversent's comments addressed the proposed revisions to the collocation power provisions of Tariff No. 17. Additionally, Verizon filed a Letter of Explanation for its proposed revisions on February 1, 2001.

Please be advised that, after review and consideration, the Department stamp-approved Verizon's January 12, 2001 tariff filing on February 15, 2001. Should there be any questions or concerns, please feel free to contact me at (617) 305-3578.

CONFIDENTIAL ATTACHMENT K



#3

Loop Qualification Response #1

From the previous page, this is the information that is received from the Loop Make-up Request.

Notes: _____

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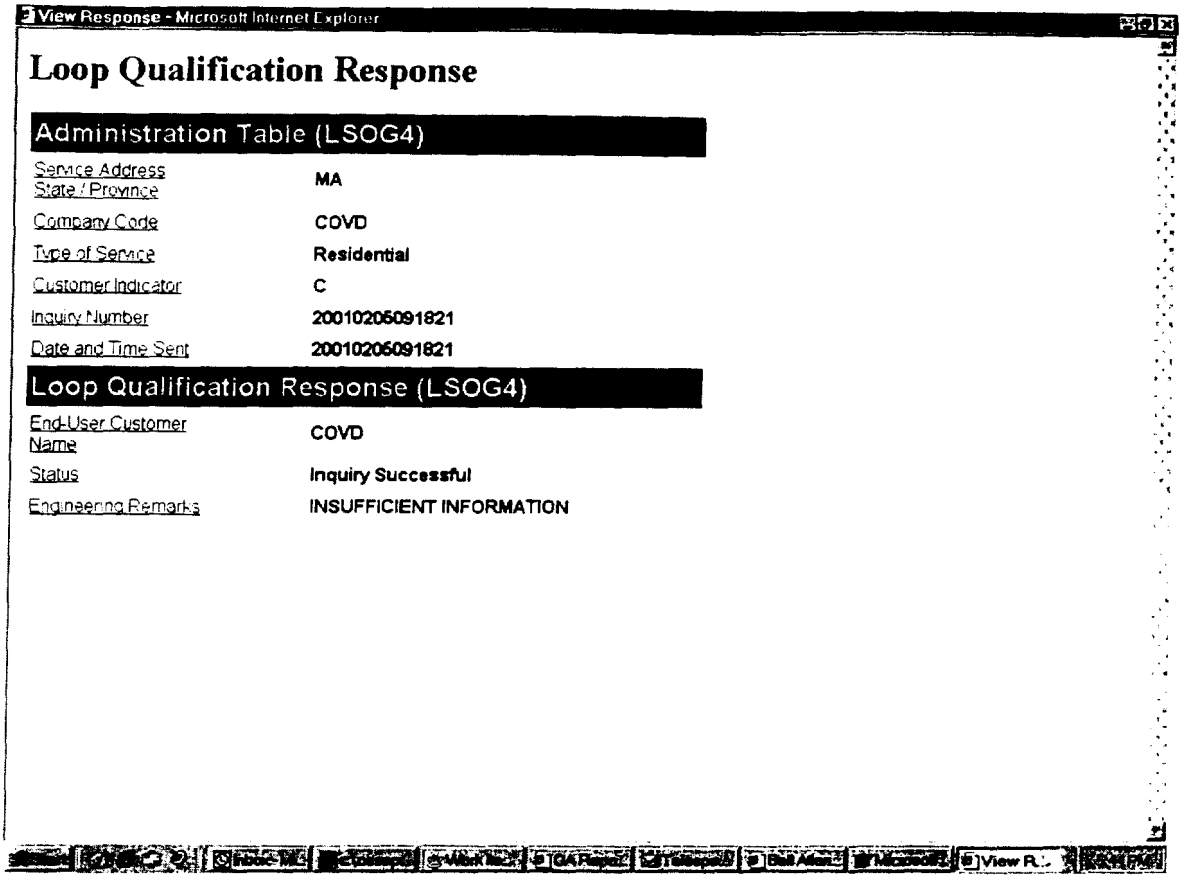
View Response - Microsoft Internet Explorer

Loop Qualification Response

Administration Table (LSOG4)

Service Address State / Province	MA
Company Code	COVD
Type of Service	Residential
Customer Indicator	C
Inquiry Number	20010206091821
Date and Time Sent	20010206091821

Loop Qualification Response (LSOG4)

End-User Customer Name	COVD
Status	Inquiry Successful
Engineering Remarks	INSUFFICIENT INFORMATION

#4

Loop Qualification Response#2

This was a response that was queried back from a Loop Make-up Request that was submitted with an address as opposed to a telephone number.

Notes:_____

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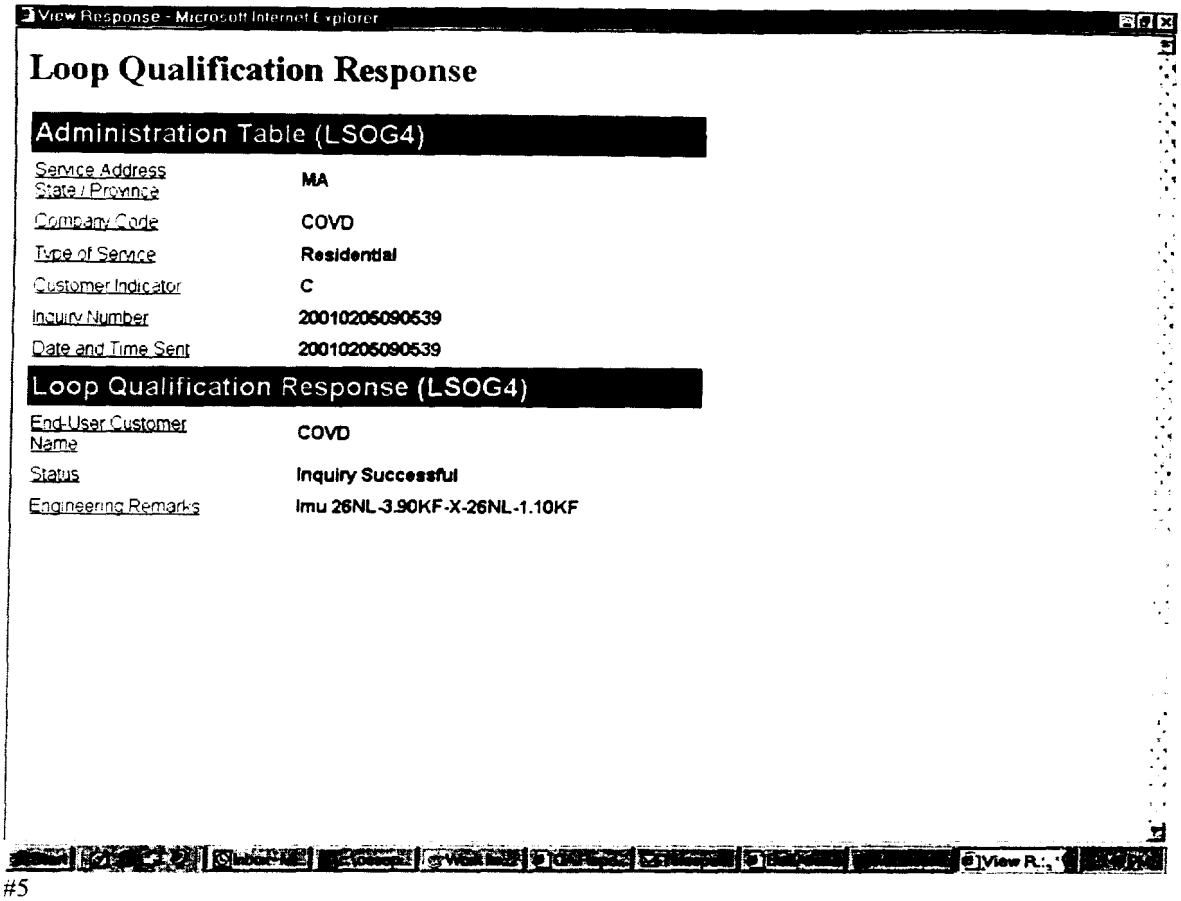
View Response - Microsoft Internet Explorer

Loop Qualification Response

Administration Table (LSOG4)

Service Address State / Province	MA
Company Code	COVD
Type of Service	Residential
Customer Indicator	C
Inquiry Number	20010205090539
Date and Time Sent	20010205090539

Loop Qualification Response (LSOG4)

End-User Customer Name	COVD
Status	Inquiry Successful
Engineering Remarks	Imu 26NL-3.90KF-X-26NL-1.10KF

#5

Loop Qualification Response #3

Notes: _____

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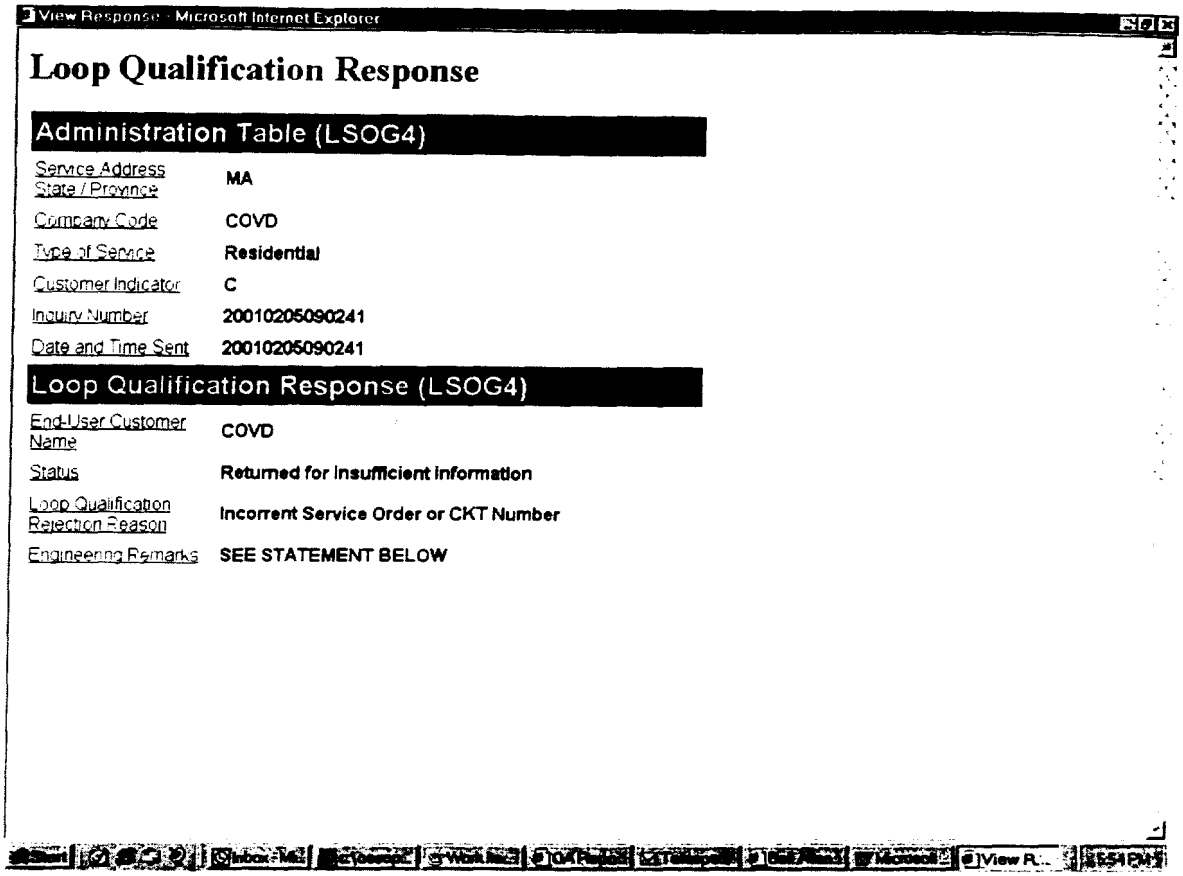
View Response - Microsoft Internet Explorer

Loop Qualification Response

Administration Table (LSOG4)

Service Address State / Province	MA
Company Code	COVD
Type of Service	Residential
Customer Indicator	C
Inquiry Number	20010205090241
Date and Time Sent	20010205090241

Loop Qualification Response (LSOG4)

End-User Customer Name	COVD
Status	Returned for Insufficient Information
Loop Qualification Rejection Reason	Incorrent Service Order or CKT Number
Engineering Remarks	SEE STATEMENT BELOW

#6

Loop Qualification Response #4

Notes:_____

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